STATE OF MICHIGAN
DEPARTMENT OF CAREER DEVELOPMENT
LANSING

JENNIFER M. GRANHOLM
GOVERNOR

DAVID C. HOLLISTER
DIRECTOR

March 20, 2003

Mr. Robert R. Wallace
Regional Inspector General for Audit
U. S. Department of Labor
61 Forsyth Street SW
Atlanta, Georgia 30303

Dear Mr. Wallace:

The Michigan Department of Career Development, Office of Workforce Development (MDCD/OWD) has received and reviewed the draft report, No. 04-03-007-03-390, regarding financial activities of the Workforce Investment Act (WIA) and Job Training Partnership Act transition funds. From our review of the draft report document, we have concerns with your findings to Items No. 2, 7, and 9. MDCD's/OWD's comments to these findings are presented below:

- **Report Item #2**

  Procedure: Determine how MDCD tracks the various funding periods for both MDCD and Michigan Works! Agencies (MWAs) activities, and if data is accounted for in a manner that will allow expenditures to be matched against the appropriate obligation.

  Inspector General's Finding: It was determined that MDCD does not match expenditures with the appropriate fiscal period's funding. Rather, current expenditures are charged against the earliest available funding. As a result, a program's costs could not be matched with the period for which it was funded.

  MDCD's Response: Your finding suggests that WIA funds can be spent only in the Program Year (PY) in which the funds were awarded. However, it is unclear what regulation or basis supports your finding.

  Per WIA regulation 20 CFR Part 667.107(a), and as stated in the ***Background*** section of your draft report: "States have the original PY plus two additional years to spend the grant funds." (Emphasis added.)

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Additionally, Sec. 23(a) of the federal *Office of Management and Budget Circular for Uniform Administration Requirements for Grants and Cooperative Agreements to States and Local Governments* (The Common Rule) states:

> Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

Based on these federal regulations, MDCD's carryover of available WIA fund balances into the subsequent funding period and charging WIA program costs against the earliest available WIA funds is an acceptable practice.

- **Report Item #7**

Procedure: Perform an analytical review of the information obtained to develop trend information and investigate any unusual relationships noted.

Inspector General's Findings:
Under the analysis of *WIA Funds Obligated*, is stated:

> Of the total $164.5 million of funding available, $4.7 million (2.9 percent) remained unobligated as of December 31, 2001. However, in addition to obligations made at the State level, Michigan reports funds to be "obligated" upon their allocation of the funds to the MWAs, even though the MWAs have not legally obligated the funds.

And, under the analysis of *Expenditure Analysis by Funding Stream*, is stated:

> Cost data submitted by MDCD through December 31, 2001, indicates that a significant amount of WIA funds at both the State and MWA levels were not spent as of that date (42.9 percent and 34.1 percent, respectively).

MDCD's Response:
In regard to *WIA Funds Obligated*:
MDCD's reporting of WIA funds for the quarter ending December 31, 2001, was prepared in accordance with U. S. Department of Labor (USDOL), Employment and Training Administration's (ETA) *Training and Employment Guidance Letter* (TEGL) No. 16-99, issued June 23, 2000. As stated in both the ***Background*** section and in ***Item 1*** of the draft report: "ETA had not clearly specified whether Local Board obligations or the State's pass-through awards should be included on the reports." It should be noted that it was not until issuance of TEGL 16-99, Change 1, on November 6, 2002, that the USDOL clarified its definition of obligation for WIA financial reporting purposes.

And, in response to *Expenditure Analysis by Funding Stream*:

> It should be noted that December 31, is the mid-point of the WIA PY. For Michigan to have unspent fund balances of 42.9 percent at the State level, and 34.1 percent at the MWA level at that point of the PY appears reasonable.

Please refer to the attached USDOL-ETA schedule on State Formula Spending for PY 2001 as of 6/30/02 reports, which includes unexpended funds carried-in to PY 2001. This schedule shows that Michigan reported expending 86.1 percent of its total available WIA funds during PY 2001. This expenditure rate achieved by Michigan far exceeded the national average of 61.3 percent, and was second only to the State of Vermont for the highest rate of expenditures for the PY.

- **Report Item #9**

Procedure: Determine how MWAs track various funding periods and if data is reported and accounted for in a manner which will allow expenditures to be matched against the appropriate obligation or subcontract agreement.

Inspector General's Findings: The MWAs employ First In/First Out (FIFO) methodology in associating period expenditures with the funding allotted to that period. As such, expenditures reported by MWAs were not matched with appropriate funding. Rather, expenditures were charged against prior period funds until those funds had been exhausted, and then charged to a subsequent period's funding. Charging current period expenditures to prior period funding dissociates the funding allotted to a specific period from the cost of that period.

MDCD's Response: Your finding suggests that WIA funds can be spent only in the PY in which the funds were awarded. The basis that supports this finding is unclear.

Per WIA regulation 20 CFR Part 667.107 (a) and (b), and as stated in the ***Background*** section of your draft report:

> States have the original program year plus two additional years to spend the grant funds. However, funds allocated by a State to a Local Board for any PY are available for expenditures only during that PY and the succeeding PY. (Emphasis added.)

> Additionally, Sec. 23(a) of the federal *Office of Management and Budget Circular for Uniform Administration Requirements for Grants and Cooperative Agreements to States and Local Governments* (The Common Rule) states:

> Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

Based on these federal regulations, the MWA's charging of WIA program costs against program funds using the FIFO methodology is correct and in compliance for the WIA program.

It is requested that the comments offered above be reviewed and taken into consideration prior to finalization of this report.

If there are any questions regarding the comments offered in this letter, please contact Mr. Ted De Leon, Division Director, Reporting and Monitoring Division, Office of Workforce Development, at (517) 335-5856.

Sincerely,

Vicki Enright, Director
Office of Workforce Development

VE:MC:jl
Enclosure

U. S. Department of Labor
Employment and Training Administration

State Reporting of Formula Spending for Program Year 2001 as of 6/30/02 Reports (as of 8/13/02)
WIA Youth, Adults and Dislocated Workers Programs Combined

State	Unexpended Carry-In To PY 2001	PY 2001 Availability: PY 2001 Allotment 7/1/2001 [*]	PY 2002 Allotment 10/01/01	Total PY 2001 Availability	Total Available 7/1/01-6/30/02*	Expenditures 7/1/01-6/30/02*	Expenditures as % of Total Available	Unexpended Balance As of 6/30/02*
					* Includes PY 2001 Youth: 4/1/01-6/30/01			
Total	$2,174,128,677	$1,718,585,600	$1,771,133,850	$3,489,838,680	$5,663,759,327	$3,471,430,364	61.3%	$2,192,328,963
Vermont	454,952	4,418,968	2,602,784	7,021,752	7,476,704	6,910,213	92.4%	566,491
Michigan	16,357,498	42,463,874	33,020,700	75,484,574	91,842,072	79,033,955	86.1%	12,808,117
Minnesota	6,287,154	15,048,057	12,848,703	27,896,760	34,183,914	28,927,282	84.6%	5,256,632
Maine	3,428,366	5,555,201	4,617,584	10,172,785	13,601,151	11,314,115	83.2%	2,287,036
Connecticut	8,213,769	13,231,847	9,987,574	23,219,421	31,433,190	25,944,718	82.5%	5,488,472
Idaho	5,708,702	6,268,426	5,381,493	11,649,919	17,358,621	14,211,461	81.9%	3,147,160
Massachusetts	9,944,324	23,401,099	18,509,788	41,910,887	51,855,211	41,707,304	80.4%	10,147,907
Montana	3,310,009	7,418,084	7,688,331	15,106,415	18,416,424	14,779,802	80.3%	3,636,622
Delaware	1,734,324	4,682,971	3,231,925	7,914,896	9,649,220	7,730,000	80.1%	1,919,220
North Dakota	1,839,140	4,360,813	2,628,679	6,989,492	8,828,632	6,924,970	78.4%	1,903,662
Missouri	20,840,415	20,915,753	17,512,732	38,428,485	59,268,900	46,400,812	78.3%	12,868,088
Oregon	18,105,166	26,533,911	29,295,770	55,829,681	73,934,847	57,691,050	78.0%	16,243,797
Illinois	37,387,572	72,771,385	60,763,983	133,535,368	170,922,940	132,985,800	77.8%	37,937,140
Florida	51,604,591	60,892,467	54,508,468	115,400,935	167,005,526	129,484,181	77.5%	37,521,345
Indiana	12,650,002	19,237,854	15,235,063	34,472,917	47,122,919	35,591,457	75.5%	11,531,462
Texas	106,864,243	139,023,801	107,383,985	246,407,786	353,272,029	262,359,945	74.3%	90,912,084
Washington	28,089,447	36,342,464	33,841,570	70,184,034	98,273,481	71,794,416	73.1%	26,479,065
Wisconsin	10,873,446	16,084,924	15,168,936	31,253,860	42,127,306	29,865,355	70.9%	12,261,951
District of Col	7,786,297	7,842,718	8,598,890	16,441,608	24,227,905	17,013,639	70.2%	7,214,266
Rhode Island	3,296,475	4,852,800	3,699,311	8,552,111	11,848,586	8,259,640	69.7%	3,588,946
Maryland	21,181,329	21,515,334	20,847,482	42,362,816	63,544,145	44,123,363	69.4%	19,420,782
Arizona	18,718,797	25,551,797	20,228,764	45,780,561	64,499,358	44,675,139	69.3%	19,824,219
Nevada	5,342,965	6,895,360	6,559,107	13,454,457	18,797,422	13,009,425	69.2%	5,787,997
Oklahoma	14,408,564	14,258,207	11,296,343	25,554,550	39,963,114	27,421,243	68.6%	12,541,871
California	317,239,432	289,854,320	298,455,979	588,310,299	905,549,731	621,261,408	68.6%	284,288,323
Pennsylvania	62,966,660	55,109,360	48,901,744	104,011,104	166,977,764	114,300,903	68.5%	52,676,861
New Jersey	39,514,959	42,177,072	36,024,923	78,201,995	117,716,954	79,645,521	67.7%	38,071,433
Utah	2,717,744	5,360,368	4,810,898	10,171,266	12,889,010	8,612,288	66.8%	4,276,722
Hawaii	16,164,978	8,425,117	8,399,099	16,824,216	32,989,194	21,950,929	66.5%	11,038,265
South Dakota	2,486,506	4,405,918	2,631,401	7,037,319	9,523,825	6,259,331	65.7%	3,264,494
Kentucky	34,874,782	23,259,126	19,202,869	42,461,995	77,336,777	50,827,304	65.7%	26,509,473
North Carolina	26,045,393	26,297,961	23,413,117	49,711,078	75,756,471	49,651,166	65.5%	26,105,305
Colorado	12,095,418	10,678,427	9,827,058	20,505,485	32,600,903	21,360,600	65.5%	11,240,303
Wyoming	3,101,340	4,465,276	2,884,305	7,349,581	10,450,921	6,841,422	65.5%	3,609,499
Tennessee	30,772,436	26,865,144	20,735,770	47,600,914	78,373,350	51,052,534	65.1%	27,320,816
New Hampshire	2,545,009	4,536,875	3,027,440	7,564,315	10,109,324	6,583,329	65.1%	3,525,995
Iowa	5,644,563	6,260,554	5,789,491	12,050,045	17,694,608	11,452,879	64.7%	6,241,729
Kansas	6,445,375	7,194,593	6,875,462	14,070,055	20,515,430	12,994,407	63.3%	7,521,023
Virginia	25,125,030	22,812,971	17,635,180	40,448,151	65,573,181	40,252,476	61.4%	25,320,705
Arkansas	20,663,753	14,676,198	11,947,633	26,623,831	47,287,584	28,411,473	60.1%	18,876,111
South Carolina	23,227,989	21,207,507	17,474,400	38,681,907	61,909,896	36,935,980	59.7%	24,973,916
Ohio	79,472,619	70,454,685	56,643,616	127,098,301	206,570,920	122,665,088	59.4%	83,905,832
Louisiana	43,236,151	33,588,606	30,648,466	64,237,072	107,473,223	60,691,634	56.5%	46,781,589
Nebraska	4,156,690	4,880,567	3,773,971	8,654,538	12,810,228	7,192,491	56.1%	5,617,737
Alabama	18,199,361	28,079,362	22,819,780	50,899,142	69,098,503	38,193,493	55.3%	30,905,010
West Virginia	26,371,003	20,588,982	24,862,326	45,451,308	71,822,311	38,953,690	54.2%	32,868,621
Georgia	42,496,842	33,114,049	28,951,357	62,065,406	104,562,248	56,422,604	54.0%	48,139,644
New York	280,699,120	126,267,300	130,800,346	256,067,646	536,766,766	282,075,614	52.6%	254,691,152
Puerto Rico	163,752,762	111,350,986	150,263,645	261,614,630	425,367,392	223,018,607	52.4%	202,348,785
Mississippi	25,022,776	30,322,285	31,517,488	61,839,773	86,862,549	44,111,675	50.8%	42,750,874
New Mexico	19,190,219	16,594,089	19,918,092	36,512,181	55,702,400	25,579,839	45.9%	30,122,561
Alaska	6,621,621	8,379,758	10,391,145	18,770,901	25,392,522	11,120,748	43.8%	14,271,774
State Total	1,755,277,878	1,654,775,558	1,555,884,966	3,209,660,524	4,965,137,602	3,236,578,718	65.2%	1,728,558,884
Navajo Nation	3,678,959	4,199,564	3,135,034	7,334,598	11,013,547	3,658,626	33.2%	7,354,921
Territories	8,815,370	5,266,276	4,148,487	9,413,763	18,229,133	7,886,707	43.3%	10,342,426
Nat Amer Youth	4,901,011	16,919,475	-	16,919,475	21,820,486	15,359,034	70.4%	6,461,452
DW Nat'l Reserve	401,448,259	37,345,137	208,765,163	246,110,300	647,558,559	207,947,279	32.1%	439,611,280
Emerg	252,550,026	32,116,605	155,052,115	187,168,720	439,718,746	130,971,915	29.8%	308,746,831
Demos	131,698,986	4,436,774	42,845,756	47,282,530	178,981,516	66,298,254	37.0%	112,683,262
TAT	12,341,580	791,758	10,867,292	11,659,050	24,000,630	8,534,110	35.6%	15,466,520
Rapid Response	4,780,470	-	-	-	4,780,470	2,099,330	43.9%	2,681,140
Spec Olympics	77,197	-	-	-	77,197	43,670	56.6%	33,527

[*] Includes $177.5 million rescission for Dislocated Workers Activities and $25 million supplemental for Youth Activities per the Supplemental Appropriations Act, 2001, P.L. 107-20, 7/24/01.

NOTE: Unexpended Carry-in can vary from that reported for previous quarter due to revisions in State reports.